

The Disingenuous 2009-10 Budget

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".... I will provide a full, clear and honest account of our economic prospects. Through clear appreciation of the troubles we face together, we will endure and overcome them together."

—Fourth Paragraph, the 2009-10 Budget

Introduction

The Financial Secretary recently claimed that the Hong Kong stimulus package was "[e]vidently ... stronger than those of many other economies". His claim was based on an overstatement of the Hong Kong stimulus package that stemmed from the inclusion of two rounds of measures that were "already planned for" and not "crisis-related". Consequently, the cost of the package was overstated to be 5.2 per cent of Hong Kong's GDP. On the other hand, he understated total discretionary measures of the G-20 nations by using old data and by excluding commitments already announced for 2010 by the G-20 nations. As a result, the cost of the G-20 nations' total discretionary measures was understated to be a weighted average of only 2.3 per cent of their GDP. Had there been no such misstatements, the cost of the Hong Kong stimulus package would

have been only 1.8 per cent of Hong Kong's GDP and that of the G-20 nations a weighted average of 4.0 per cent of their GDP. The truth was therefore completely distorted. The deceptive claim of the Financial Secretary is very disappointing.

The Hong Kong Stimulus Package

Only 90 days after delivering the 2009-10 Budget,² which was his second budget, the Financial Secretary announced on 26 May 2009 additional relief measures of HK\$16.8 billion.³ These measures increased the Hong Kong stimulus package to a total cost estimated to be about HK\$87.6 billion, or 5.2 per cent of Hong Kong's GDP. The stimulus package consisted of four rounds of measures spanning two fiscal years from 2008 to 2010. In each of these two years, two rounds of measures were offered.

The first round of measures was launched by the Financial Secretary at his first budget (i.e. the 2008-09 Budget⁴) on 28 February 2008 and the second round by the Chief Executive at the Question and Answer Session in the Legislative Council on 16 July 2008.⁵ The costs of the first and the second rounds of measures were HK\$46.5 billion and HK\$11 billion, respectively,⁶ so their total cost was HK\$57.5 billion, or 3.4 per cent ($= 5.2 \text{ per cent} \times 57.5 \div 87.6$) of GDP.

The third round of measures was given at the 2009-10 Budget. A simple calculation shows that its cost was HK\$13.3 billion ($= \text{HK\$87.6 billion} - \text{HK\$57.5 billion} - \text{HK\$16.8 billion}$). The third round of measures was outweighed by the fourth round of measures, that is, the additional relief measures announced on 26 May 2009. These two rounds of measures together corresponded to 1.8 per cent ($= 5.2 \text{ per cent} - 3.4 \text{ per cent}$) of GDP.

Comparison with G-20's Discretionary Measures

To compare the Hong Kong stimulus package with those of other economies, the Financial Secretary made the following reference to an IMF report: "According to the report published by the International Monetary Fund in March, the average expenditure of the G-20 nations in this respect accounts for 2.3% of their GDP."⁷ As the Hong Kong stimulus package was estimated to be about 5.2 per cent of Hong Kong's GDP, he claimed that it was "[e]vidently ... stronger than those of many other economies".⁸

The IMF March report referred to by the Financial Secretary was the Note on "Global Economic Policies and Prospects" prepared by the staff of the IMF for the meeting of the Group of Twenty Ministers and Central Bank Governors on 13-14

March 2009 in London.⁹ The relevant figures from the IMF March Note are reproduced in Table 1.

Two observations are in order. First, the Financial Secretary only used the first two columns under the heading of the IMF March Note, which show that the weighted average of discretionary measures of the G-20 nations was 2.3 per cent ($= 0.5 \text{ per cent} + 1.8 \text{ per cent}$) of GDP in 2008-09. Second, the 2009 March data used by the Financial Secretary are not up-to-date. Indeed, updated data were published by the IMF on 26 April 2009,¹⁰ exactly one month before the Financial Secretary made the comparison. The updated data are also reproduced in Table 1, under the heading "IMF April Update". Using old data to make the comparison shows that the Financial Secretary is either ignorant or deliberately misleading.

A sensible comparison is apples to apples, oranges to oranges. According to both the IMF March Note and the IMF April Update, discretionary measures "reflect the budgetary cost of *crisis-related* discretionary measures in each year compared to 2007 (baseline), ... They do not include (i) 'below-the-line' operations that involve acquisition of assets (including financial sector support) or (ii) measures that were *already planned for*" (emphases added). The latter condition excluded most measures that were launched prior to late 2008.¹¹ It should be noted that discretionary measures in 2008 were significantly weaker than those in either 2009 or 2010.

It is problematic for the Financial Secretary to include the first two rounds of measures in the Hong Kong stimulus package when comparing it to discretionary measures in the IMF March Note. The first round of measures was launched

F E A T U R E S

Table 1. G-20 Countries: Discretionary Measures, 2008-10
(in percent of GDP) 1/

	IMF March Note 2/			IMF April Update 3/ 4/		
	2008	2009	2010	2008	2009	2010
Argentina	0.0	1.3	...	0.0	1.5	...
Australia	0.7	2.1	1.7	0.7	2.1	1.7
Brazil	0.0	0.4	0.2	0.0	0.6	0.8
Canada	0.0	1.5	1.3	0.0	1.9	1.7
China	0.4	3.2	2.7	0.4	<i>3.1</i>	2.7
France	0.0	0.7	0.7	0.0	0.7	0.8
Germany	0.0	1.5	2.0	0.0	1.6	2.0
India	0.6	0.6	...	0.6	0.6	0.6
Indonesia	0.0	1.3	0.6	0.0	1.3	0.6
Italy	0.0	0.2	0.1	0.0	0.2	0.1
Japan	0.4	1.4	0.4	<i>0.3</i>	2.4	1.8
Korea	1.1	2.3	1.3	1.1	3.9	<i>1.2</i>
Mexico	0.0	1.5	...	0.0	1.5	...
Russia	0.0	2.3	1.6	0.0	4.1	1.3
Saudi Arabia	2.4	3.3	3.5	2.4	3.3	3.5
South Africa	1.7	1.8	-0.6	1.7	1.8	-0.6
Turkey	0.0	0.0	0.8	0.3
United Kingdom	0.2	1.4	-0.1	0.2	1.4	-0.1
United States	1.1	2.0	1.8	1.1	2.0	1.8
G-20 PPP-GDP weighted average	0.5	1.8	1.3	0.5	2.0	1.5

1. "..." indicates that no information on the size of the fiscal package is available.
2. Source: Table 1 in Appendix I on p.37 of "Global Economic Policies and Prospects".
3. Source: Table 2 on p.5 of "Update on Fiscal Stimulus and Financial Sector Measures".
4. Italics indicate a decrease in discretionary measures and bold indicates an increase.

in February 2008 and the second round in July 2008, so they were "already planned for" by late 2008. Including them overstated the Hong Kong stimulus package, relative to discretionary measures in either the IMF March Note or the IMF April Update.

There is another reason that the first two rounds of measures in the Hong Kong stimulus package were not comparable to the discretionary measures of the G-20 nations. The first two rounds of measures were not "crisis-related". The Financial Secretary gave the following assessment of the first round of measures in the 2008-09 Budget:

"[T]his will give some impetus to the overall economy although the effect will not be significant in 2008. ... The impact of these measures will be felt in the medium to long term and will not have any short term economic impact. ... these measures will not generate a lot of domestic demand in a short period of time. The stimulating effect on inflation should be limited."¹²

Clearly, the first round of measures was intended to minimise their short-term stimulating effect. This is against the nature of "crisis-related" measures, which are designed to generate immediate, effective impact. It is illuminating to compare how the Financial Secretary characterised "crisis-related" measures when the additional relief measures were announced on 26 May 2009: "[W]hen considering the new relief measures and their intensity, we want them to be forward-looking, simple and direct, ... so that they can benefit the people as early as possible. The new measures should also be targeted, timely and effective...."¹³

Neither was the second round of measures crisis-related. This is how the Chief Executive

rationalised the second round of measures when they were introduced on 16 July 2008:

"Today ... I think that it's time for immediate action because global oil and food prices have increased rapidly in the first half of the year. The drastic price increases ... have upset the lives of Hong Kong people and our social harmony. Therefore, I have decided to announce some short-term relief measures today to alleviate the pressure on the grassroots and middle-class community as a result of high inflation."¹⁴

The second round of measures was purely inflation-driven. Spinning them as "crisis-related" is to have your cake and eat it too. Indeed, the concern of inflation had been largely put aside by the G-20 nations when discretionary measures were being formulated.

Our analysis shows that the Hong Kong stimulus package was overstated by the inclusion of the first two rounds of measures. To rectify the misstatements, these two rounds of measures need to be removed. Consequently, the cost of the Hong Kong stimulus package only accounted for 1.8 per cent of Hong Kong's GDP, or slightly above one-third ($0.35 = 1.8 \text{ per cent} \div 5.2 \text{ per cent}$) of the amount claimed by the Financial Secretary.

The Financial Secretary not only overstated the stimulus package, but also understated the G20 nations' discretionary measures. First, he used the old data in the IMF March Note. Second, he excluded discretionary measures already committed by the G-20 nations for 2010. (Those committed by the Hong Kong Government for 2010 were already reflected in the 2009-10 Budget and the additional relief measures announced on 26 May 2009.) After correcting these two understatements, the cost of the G-20

nations' total discretionary measures for 2008-10 increased to a weighted average of 4.0 per cent ($= 0.5 \text{ per cent} + 2.0 \text{ per cent} + 1.5 \text{ per cent}$) of their GDP, or almost one-and-three-quarters times ($1.74 = 4 \text{ per cent} \div 2.3 \text{ per cent}$) the figure used by the Financial Secretary.

Either the overstatement or the understatement alone is a gross misstatement. Two wrongs don't make a right. They are even deceptive in this case. The overstated stimulus package was 2.26 ($= 5.2 \text{ per cent} \div 2.3 \text{ per cent}$) times the understated G-20 nations' discretionary measures (by percent of GDP). This is an outright contradiction of the fact that the G-20 nations' total discretionary measures were 2.22 ($= 4.0 \text{ per cent} \div 1.8 \text{ per cent}$) times the Hong Kong stimulus package (also by percent of GDP).

Concluding Remarks

The Financial Secretary argued that he had offered a patently strong stimulus package to help Hong Kong overcome the once-in-a-century financial tsunami. Alas, the claim is false. It is based on an overstated Hong Kong stimulus package and understated G-20 nations' discretionary measures. The Hong Kong stimulus package was overstated by including non-crisis-related measures. The costs of the crisis-related measures and the non-crisis-related measures accounted for 1.8 per cent and 3.4 per cent of Hong Kong's GDP, respectively. It is absurd that the crisis-related measures in 2009 were even weaker than the non-crisis-related measures prior to late 2008. Ironically, we had counted on the Government for strong doses of medicine during late 2008 and the first half of 2009.¹⁵

Food for Thought

We end this article with a counterfactual analysis. How much would it have cost the Government to offer a genuine package that was "evidently stronger than" the G-20 nations' total discretionary measures?

A back-of-the-envelope calculation shows that such a package would be around 2.25¹⁶ times the G-20 nations' total discretionary measures (by percent of GDP), so it would be 9 per cent ($= 4 \text{ per cent} \div 2.25$) of Hong Kong's GDP or HK\$150.5 billion, corresponding to one-third of Hong Kong's fiscal reserve!

Putting money where the Financial Secretary's mouth is would not only have cost the Government a fortune, but also would have led to a violation of the budgetary guideline of limiting public expenditure to less than 20 per cent of GDP, and even of the principles of prudent management of public finances stipulated in Article 107 of the Basic Law. Nonetheless, making a deceptive claim is inexcusable. Such engineering of a financial shenanigan by the Financial Secretary is equivalent to a government accounting scandal.

Endnotes

1. I am grateful to Kam-Ming Wan and an anonymous referee for detailed comments. School of Economics and Finance, The University of Hong Kong, Pokfulam Road, Hong Kong; Email: steve.ching@hku.hk
2. The 2009-10 Budget was delivered on 25 February 2009 (available at: <http://www.budget.gov.hk/2009/eng/speech.html>).

3. The "Additional Relief Measures" is available at: <<http://www.legco.gov.hk/yr08-09/english/panels/fa/papers/fa0529cb1-1740-1-e.pdf>>.
4. The 2008-09 Budget is available at: <<http://www.budget.gov.hk/2008/eng/speech.html>>.
5. The "Opening Remarks by CE at Question and Answer Session in Legislative Council" is available at: <<http://www.info.gov.hk/gia/general/200807/16/P200807160261.htm>>.
6. See the third-to-last paragraph of the "Opening Remarks by CE at Question and Answer Session in Legislative Council".
7. See the ninth paragraph of the "Additional Relief Measures".
8. *Ibid.*
9. The IMF March Note is available at: <<http://www.imf.org/external/np/g20/pdf/031909a.pdf>>.
10. The "Update on Fiscal Stimulus and Financial Sector Measures" is available at: <<http://www.imf.org/external/np/fad/2009/042609.pdf>>.
11. Lehman Brothers filed for bankruptcy under Chapter 11 on 15 September 2008.
12. See paragraphs 189-191 of the 2008-09 Budget.
13. See the fourth paragraph of the "Additional Relief Measures".
14. See the first paragraph of the "Opening Remarks by CE at Question and Answer Session in Legislative Council".
15. "Below-the-line" operations that involve acquisition of assets (including financial sector support) were not considered as discretionary measures by the IMF.
16. We pick a number between 2.22 and 2.26 for ease of calculation. The latter two numbers are obtained at the end of the previous section. **T**